

City of Keego Harbor, Michigan

Financial Report with Additional Information June 30, 2003

City of Keego Harbor, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Keego Harbor, Michigan

We have audited the accompanying general purpose financial statements of the City of Keego Harbor, Michigan as of June 30, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Keego Harbor, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Keego Harbor, Michigan as of June 30, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

November 6, 2003

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City of Keego Harbor, Michigan

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets				
Cash and cash equivalents (Note 2)	\$ 131,308	\$ 227,987	\$ 21,437	\$ -
Investments (Note 2)	582,856	456,097	51,548	1,385,870
Customer receivables	10,085	-	-	-
Taxes receivable	13,606	-	-	13,828
Prepaid expenses	56,213	759	-	-
Due from other funds (Note 3)	41,963	3,787	-	6,045
Due from other governmental units	43,384	24,317	-	-
Capital assets (Note 4)	-	-	-	-
Amount available in Debt Service Funds	-	-	-	-
Amount to be provided for employee benefits and retirement of long-term debt	-	-	-	-
Total assets	<u>\$ 879,415</u>	<u>\$ 712,947</u>	<u>\$ 72,985</u>	<u>\$ 1,405,743</u>
Liabilities and Fund Equity				
Liabilities				
Accounts payable	\$ 113,379	\$ 39,506	\$ -	\$ 1,485
Accrued and other liabilities	35,945	3,053	-	-
Due to other funds	9,832	186	11,305	28,184
Due to other governmental units	2,250	2,489	-	-
Deferred revenue	13,606	-	-	13,828
Bond deposits	-	81,668	-	-
Long-term debt (Note 5)	-	-	-	-
Total liabilities	175,012	126,902	11,305	43,497
Contingencies (Note 12)	-	-	-	-
Fund Equity				
Investment in general fixed assets	-	-	-	-
Fund balances:				
Reserved (Note 7)	3,357	-	-	-
Unreserved:				
Designated (Note 7)	76,346	51,460	21,400	-
Undesignated	624,700	534,585	40,280	1,362,246
Total fund equity	704,403	586,045	61,680	1,362,246
Total liabilities and fund equity	<u>\$ 879,415</u>	<u>\$ 712,947</u>	<u>\$ 72,985</u>	<u>\$ 1,405,743</u>

Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

Fiduciary Fund Type	Account Groups		Total
Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)
\$ 3,055	\$ -	\$ -	\$ 383,787
1,979	-	-	2,478,350
-	-	-	10,085
-	-	-	27,434
-	-	-	56,972
-	-	-	51,795
-	-	-	67,701
-	1,548,841	-	1,548,841
-	-	40,280	40,280
-	-	296,065	296,065
\$ 5,034	\$ 1,548,841	\$ 336,345	\$ 4,961,310

\$ -	\$ -	\$ -	\$ 154,370
-	-	-	38,998
2,288	-	-	51,795
2,746	-	-	7,485
-	-	-	27,434
-	-	-	81,668
-	-	336,345	336,345
5,034	-	336,345	698,095
-	-	-	-
-	1,548,841	-	1,548,841
-	-	-	3,357
-	-	-	149,206
-	-	-	2,561,811
-	1,548,841	-	4,263,215
\$ 5,034	\$ 1,548,841	\$ 336,345	\$ 4,961,310

City of Keego Harbor, Michigan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - All Governmental Fund Types Year Ended June 30, 2003

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenue						
Property taxes	\$ 1,043,108	\$ 121,744	\$ 58,175	\$ 122,737	\$ -	\$ 1,345,764
Licenses and permits	23,930	47,746	-	-	-	71,676
Federal sources	21,534	-	-	-	-	21,534
State sources	285,393	244,433	-	-	-	529,826
Fines and forfeitures	33,004	-	-	-	-	33,004
Interest and rent	24,899	5,046	657	21,746	-	52,348
Other	49,887	6,856	-	8,957	-	65,700
Total revenue	1,481,755	425,825	58,832	153,440	-	2,119,852
Expenditures						
Legislative	5,976	-	-	-	-	5,976
General government	570,876	-	-	-	-	570,876
Public safety	720,877	-	-	-	-	720,877
Public works	114,153	117,664	-	-	-	231,817
Streets	-	102,428	-	-	-	102,428
Parks and recreation	1,121	68,976	-	-	-	70,097
Debt service	-	-	46,233	-	-	46,233
Other expenditures	40,584	135,769	-	96,639	-	272,992
Total expenditures	1,453,587	424,837	46,233	96,639	-	2,021,296
Excess of Revenue Over Expenditures	28,168	988	12,599	56,801	-	98,556
Other Financing Sources (Uses)						
Operating transfers in	-	153,430	-	61,006	-	214,436
Operating transfers out	(110,830)	(42,600)	-	(61,006)	-	(214,436)
Total other financing sources (uses)	(110,830)	110,830	-	-	-	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(82,662)	111,818	12,599	56,801	-	98,556
Fund Balances - July 1, 2002	787,065	474,227	49,081	1,305,445	-	2,615,818
Fund Balances - June 30, 2003	\$ 704,403	\$ 586,045	\$ 61,680	\$ 1,362,246	\$ -	\$ 2,714,374

City of Keego Harbor, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 1,095,504	\$ 1,100,182	\$ 4,678
Licenses and permits	40,900	23,930	(16,970)
Federal sources	19,000	21,534	2,534
State sources	292,300	285,393	(6,907)
Fines and forfeitures	41,000	33,004	(7,996)
Interest and rent	45,770	24,899	(20,871)
Operating transfers in	9,000	-	(9,000)
Other	500	49,887	49,387
Total revenue	1,543,974	1,538,829	(5,145)
Expenditures			
Legislative	7,880	5,976	1,904
General government	537,430	570,876	(33,446)
Public safety	709,760	720,877	(11,117)
Public works	126,960	114,153	12,807
Parks and recreation	-	1,121	(1,121)
Streets	-	-	-
Debt service	-	-	-
Operating transfers out	105,830	110,830	(5,000)
Other expenditures	68,444	97,658	(29,214)
Total expenditures	1,556,304	1,621,491	(65,187)
Excess of Revenue Over (Under) Expenditures	(12,330)	(82,662)	(70,332)
Fund Balances - July 1, 2002	787,065	787,065	-
Fund Balances - June 30, 2003	<u>\$ 774,735</u>	<u>\$ 704,403</u>	<u>\$ (70,332)</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General, Special Revenue, and Debt Service Fund Types
Year Ended June 30, 2003**

Special Revenue Funds			Debt Service Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 117,110	\$ 121,744	\$ 4,634	\$ 56,160	\$ 58,175	\$ 2,015
54,900	47,746	(7,154)	-	-	-
-	-	-	-	-	-
128,000	244,433	116,433	-	-	-
-	-	-	-	-	-
8,950	5,046	(3,904)	2,500	657	(1,843)
150,140	153,430	3,290	-	-	-
1,600	2,681	1,081	-	-	-
460,700	575,080	114,380	58,660	58,832	172
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
118,040	117,664	376	-	-	-
63,080	68,976	(5,896)	-	-	-
85,390	102,428	(17,038)	-	-	-
-	-	-	46,220	46,233	(13)
37,800	42,600	(4,800)	-	-	-
135,760	134,723	1,037	-	-	-
440,070	466,391	(26,321)	46,220	46,233	(13)
20,630	108,689	88,059	12,440	12,599	159
474,227	474,227	-	49,081	49,081	-
\$ 494,857	\$ 582,916	\$ 88,059	\$ 61,521	\$ 61,680	\$ 159

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Keego Harbor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Keego Harbor. The individual component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial relationships.

The City of Keego Harbor Tax Incremental Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in one broad fund category as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, State-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Projects Funds - Capital Projects Funds are used to account for the development of capital facilities other than those financed by the operations of an Enterprise Fund.

Agency Fund - The Agency Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Tax Collection Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Basis of Accounting

All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on July 31 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Noncurrent receivables, such as delinquent personal property taxes, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

Note I - Summary of Significant Accounting Policies (Continued)

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Investments - Investments are recorded at fair value, based on quoted market prices.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments

The City's deposits and investments are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ 383,787
Investments	<u>2,478,350</u>
Total	<u>\$ 2,862,137</u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 925,389
Bank investment pools	907,597
Interlocal agreement investment pool	1,028,801
Petty cash or cash on hand	<u>350</u>
Total	<u>\$ 2,862,137</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$981,167. Of that amount, approximately \$500,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

The City's investments during the year consisted solely of bank investment pools and interlocal agreement investment pools. There was \$907,597 invested in bank investment pools and \$1,028,801 invested in interlocal agreement investment pools at June 30, 2003. Investments are normally categorized to give an indication of the level of risk assumed by the City; however, investments in such pools are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the pool is the same as the value of the pool shares. The City believes that the investments in these pools comply with the investment authority noted above.

Note 3 - Interfund Receivables

Interfund receivables at June 30, 2003 consist of the following:

Fund Due To	Fund Due From	Amount
General Fund	Parks and Recreation Fund	\$ 186
	Capital Projects Fund	14,112
	Current Tax Collection Fund	2,288
	Cass Lake Road Project Fund	14,072
	Debt Service Fund	<u>11,305</u>
Total General Fund		41,963
Special Revenue Fund - Garbage Collection Fund	General Fund	3,787
Capital Projects Fund - TIFA Fund	General Fund	<u>6,045</u>
Total interfund receivables		<u>\$ 51,795</u>

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land and buildings	\$ 126,184	\$ -	\$ -	\$ 126,184
Furnishings, fixtures, and equipment	321,876	4,785	-	326,661
Vehicles	253,381	-	-	253,381
Investment in Tri-City Fire Department	844,101	-	1,486	842,615
Total	<u>\$ 1,545,542</u>	<u>\$ 4,785</u>	<u>\$ 1,486</u>	<u>\$ 1,548,841</u>

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the long-term debt outstanding of the City as of June 30, 2003:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding General Long-term Debt
General Obligation Tri-City Fire Station Bonds	1	5.10%-5.25%	2010	\$ 290,000
Accumulated employee benefits				<u>46,345</u>
Total long-term debt				<u>\$ 336,345</u>

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick and vacation pay policy. Under the City's policy, employees can earn sick and vacation time based on time of service with the City.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2003:

Balance - July 1, 2002	\$ 364,226
Increase in obligation for vested fringe benefits	2,119
Debt retired	<u>(30,000)</u>
Balance - June 30, 2003	<u>\$ 336,345</u>

Debt Service Requirements

The annual requirements, including both principal and interest, to service the fire station bonds outstanding as of June 30, 2003 are as follows:

2004	\$ 44,400
2005	42,855
2006	51,025
2007	48,925
2008	51,694
Remaining years	<u>110,643</u>
Total	<u>\$ 349,542</u>

Interest

Total interest incurred during the year was approximately \$15,900.

Note 6 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Reserved and Designated Fund Balance

The General Fund's fund balance includes amounts that have been reserved and designated by the City Council. The amounts of reserved and designated balances are detailed below:

	General Fund	Major Street Fund	Debt Retirement Fund
Reserved fund balance:			
Optomist parks donation	\$ 2,883	\$ -	\$ -
Fran Leaf donation	<u>474</u>	<u>-</u>	<u>-</u>
Total reserved fund balance	<u>\$ 3,357</u>	<u>\$ -</u>	<u>\$ -</u>
Designated fund balance:			
Designated for subsequent year's expenditures	\$ 20,000	\$ 51,460	\$ 21,400
Accrued benefits	46,346	-	-
MMRMA liability deductible	<u>10,000</u>	<u>-</u>	<u>-</u>
Total designated fund balance	<u>\$ 76,346</u>	<u>\$ 51,460</u>	<u>\$ 21,400</u>

Note 8 - Budget Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Budget Information (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- The Carillon Fund and Police Department Community Events Fund were not budgeted in the current year.
- The capture of TIFA revenue has been budgeted in the General Fund with a corresponding other expenditure to the TIFA fund.

The budget statement (combined statement of revenue, expenditures, and changes in fund balances - budget and actual - General, Special Revenue, and Debt Service Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances - all governmental fund types):

	General Fund		Special Revenue Funds	
	Total	Total	Total	Total
	Revenue	Expenditures	Revenue	Expenditures
Amounts per operating statement	\$ 1,481,755	\$ 1,453,587	\$ 425,825	\$ 424,837
Operating transfers budgeted as revenue and expenditures	-	110,830	153,430	42,600
Non-budgeted funds	-	-	(4,175)	(1,046)
TIFA capture	57,074	57,074	-	-
Amounts per budget statement	<u>\$ 1,538,829</u>	<u>\$ 1,621,491</u>	<u>\$ 575,080</u>	<u>\$ 466,391</u>

The budget for the General Fund has been adopted on an activity basis; the budget for the Special Revenue Funds and Debt Service Funds have been adopted in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and Special Revenue Funds budgets as adopted by the City Council is included in the additional information. This comparison includes expenditure budget overruns. A comparison of the actual results of the Debt Service Fund to the budget as adopted is included in the general purpose financial statements.

Note 8 - Budget Information (Continued)

An overview of certain funds' significant expenditure overruns is as follows:

	Budget	Actual
General Fund:		
General government	\$ 537,430	\$ 570,876
Other expenditures	68,444	97,658
Major Street Fund - Total expenditures	58,190	88,396

General government was over budget in the General Fund due to an unanticipated severance payout to the former city manager, and greater than expected costs incurred to close out the prior fiscal year.

Other expenditures were over budget in the General Fund due to nonbudgeted Library expenditures of approximately \$31,000 that were incurred in the current fiscal year.

Total expenditures were over budget in the Major Street Fund due to nonbudgeted administrative charges incurred by the Major Street Fund for services provided by various other departments of Keego Harbor; and greater than anticipated transfers from the Major Fund to the Local Street Fund as the result of greater than anticipated receipts of Act 51 money.

The City has several funds with deficits for the year ended June 30, 2003. The following is an overview of these funds:

The Parks and Recreation Fund has a fund deficit of \$3,243 as of June 30, 2003. This deficit is primarily due to accounts payable and payroll related items that were accrued subsequent to year end and were not offset with a transfer from the General Fund. The deficit will be eliminated through a transfer from the General Fund during the next fiscal year.

The Building Fund has a fund deficit of \$2,127 as of June 30, 2003. This deficit is primarily due to a budgeted operating transfer from the General Fund not being made prior to year end. The deficit will be eliminated through a transfer from the General Fund during the next fiscal year.

The Cass Lake Road Streetscape Fund and the Cass Lake Road Project Fund have deficits of \$14,076 and \$15,591, respectively, as of June 30, 2003. These deficits were due to monies from the TIFA Fund not being transferred prior to year end. These deficits will be eliminated through transfers from the TIFA Fund during the next fiscal year.

Note 9 - Postemployment Benefits

The City provides health care benefits to all eligible full-time employees upon retirement, in accordance with labor contracts and City policy. Currently, one retiree is eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$3,600.

Note 10 - Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the MMERS for these employees was established by City personnel policy and by negotiation with the City's competitive bargaining units and requires no contribution from the City employees.

Annual Pension Cost

For the year ended June 30, 2003, the City's annual pension cost of \$49,576 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 43,276	\$ 31,551	\$ 49,576
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2000	2001	2002
Actuarial value of assets	\$ 1,190,911	\$ 1,261,021	\$ 1,278,011
Actuarial accrued liability (AAL) (entry age)	\$ 1,313,023	\$ 1,472,387	\$ 1,550,351
Unfunded AAL (UAAL)	\$ 122,112	\$ 211,366	\$ 272,340
Funded ratio	91%	86%	82%
Covered payroll	\$ 489,295	\$ 528,156	\$ 555,463
UAAL as a percentage of covered payroll	25%	40%	49%

Note 11 - Joint Ventures

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$159,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

Note 12 - Contingencies

The City is currently involved in litigation with several parties related to the Goose Island Brewery, regarding alleged civil rights violations and taking of property. Regarding the first item, the outcome is not determinable at this time; however, any losses would be covered by the City's insurance carrier. Regarding the second item, this item is not determinable or potential loss measurable, and this loss would not be covered by the City's insurance carrier.

The City is in discussions with the State Tax Commission regarding the amount of taxes captured by the TIFA from local schools. The State contends that approximately \$500,000 of funds captured by the TIFA was not eligible and needs to be returned to the schools. The City believes it is eligible to capture these monies and is currently bringing its case to the Commission; therefore, no liability has been recorded.

Note 13 - Upcoming Reporting Change

For the year beginning July 1, 2003, the City plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information

To the Honorable Mayor and Members
of the City Council
City of Keego Harbor, Michigan

We have audited the general purpose financial statements of the City of Keego Harbor, Michigan for the year ended June 30, 2003. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Keego Harbor, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

November 6, 2003

City of Keego Harbor, Michigan

General Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes:			
Current property taxes	\$ 1,014,630	\$ 1,009,233	\$ (5,397)
TIFA capture	57,074	57,074	-
Interest and penalties	20,000	30,725	10,725
Appeals	700	75	(625)
Cost recovery fees	3,100	3,075	(25)
Total property taxes	1,095,504	1,100,182	4,678
Licenses and permits:			
Licenses and permits	350	254	(96)
Cable franchise fees	40,000	23,120	(16,880)
Trailer fees	550	556	6
Total licenses and permits	40,900	23,930	(16,970)
Federal revenue	19,000	21,534	2,534
State sources:			
State-shared revenue	286,000	280,721	(5,279)
Liquor license fees	4,800	4,044	(756)
Act 302 Grant	1,500	628	(872)
Total State sources	292,300	285,393	(6,907)
District Court fines	41,000	33,004	(7,996)
Interest	45,770	24,899	(20,871)
Other revenue	500	49,887	49,387
Operating transfers in	9,000	-	(9,000)
Total revenue	1,543,974	1,538,829	(5,145)

City of Keego Harbor, Michigan

General Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance Budget and Actual (Continued) Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Legislative - City Council	\$ 7,880	\$ 5,976	\$ 1,904
General government:			
City manager	91,220	102,214	(10,994)
Elections	2,460	3,109	(649)
Assessment services	24,200	24,840	(640)
Legal services	55,200	58,074	(2,874)
Board of Review	470	374	96
Treasurer	249,000	258,462	(9,462)
Buildings and grounds	65,260	74,415	(9,155)
Planning	40,000	41,788	(1,788)
ZBA	9,620	7,600	2,020
Total general government	537,430	570,876	(33,446)
Public safety:			
Police department	550,610	561,728	(11,118)
Fire protection	159,150	159,149	1
Total public safety	709,760	720,877	(11,117)
Public works:			
DPW	30,750	24,505	6,245
Vehicles	53,360	55,497	(2,137)
Lighting	42,850	34,151	8,699
Total public works	126,960	114,153	12,807
Parks and recreation	-	1,121	(1,121)
Operating transfers out	105,830	110,830	(5,000)
Other expenditures:			
Retiree health insurance	11,370	40,584	(29,214)
TIFA transfer	57,074	57,074	-
Total other expenditures	68,444	97,658	(29,214)
Total expenditures	1,556,304	1,621,491	(65,187)
Excess of Expenditures Over Revenue	(12,330)	(82,662)	(70,332)
Fund Balance - July 1, 2002	787,065	787,065	-
Fund Balance - June 30, 2003	<u>\$ 774,735</u>	<u>\$ 704,403</u>	<u>\$ (70,332)</u>

City of Keego Harbor, Michigan

	Major Streets Fund	Local Streets Fund	Beautification Fund	Parks and Recreation Fund
Assets				
Cash	\$ 73,632	\$ 58,723	\$ 2,395	\$ -
Investments	355,724	71,405	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	16,953	7,364	-	-
Total assets	<u>\$ 446,309</u>	<u>\$ 137,492</u>	<u>\$ 2,395</u>	<u>\$ -</u>
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ 336	\$ 142	\$ 164	\$ 2,585
Accrued and other liabilities	-	1,265	-	337
Due to other funds	-	-	-	186
Due to other governmental units	194	227	-	135
Bond deposits	-	-	-	-
Total liabilities	530	1,634	164	3,243
Fund Balances (Deficit) - Undesignated	<u>445,779</u>	<u>135,858</u>	<u>2,231</u>	<u>(3,243)</u>
Total liabilities and fund balances (deficit)	<u>\$ 446,309</u>	<u>\$ 137,492</u>	<u>\$ 2,395</u>	<u>\$ -</u>

**Special Revenue Funds
Combining Balance Sheet
June 30, 2003**

Garbage Collection Fund	Carillon Fund	Police Department Community Events Fund	Building Fund	Total
\$ 631	\$ 1,771	\$ 1,358	\$ 89,477	\$ 227,987
-	-	-	28,968	456,097
-	-	-	759	759
3,787	-	-	-	3,787
-	-	-	-	24,317
<u>\$ 4,418</u>	<u>\$ 1,771</u>	<u>\$ 1,358</u>	<u>\$ 119,204</u>	<u>\$ 712,947</u>
\$ -	\$ -	\$ -	\$ 36,279	\$ 39,506
-	-	-	1,451	3,053
-	-	-	-	186
-	-	-	1,933	2,489
-	-	-	81,668	81,668
-	-	-	121,331	126,902
4,418	1,771	1,358	(2,127)	586,045
<u>\$ 4,418</u>	<u>\$ 1,771</u>	<u>\$ 1,358</u>	<u>\$ 119,204</u>	<u>\$ 712,947</u>

City of Keego Harbor, Michigan

	Major Streets Fund	Local Streets Fund	Beautification Fund	Parks and Recreation Fund
Revenue				
Refuse collection	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
State sources	170,400	74,033	-	-
Interest	3,330	1,009	-	-
Other	-	-	1,351	833
Total revenue	173,730	75,042	1,351	833
Expenditures				
Winter maintenance	20,214	22,112	-	-
Routine maintenance	6,269	10,882	-	-
Equipment rentals	2,215	16,136	-	-
Administrative fees and other	17,098	7,502	-	-
Public works	-	-	164	-
Parks and recreation	-	-	-	68,976
Community activity	-	-	-	-
Building activities	-	-	-	-
Total expenditures	45,796	56,632	164	68,976
Excess of Revenue Over (Under) Expenditures	127,934	18,410	1,187	(68,143)
Other Financing Sources (Uses)				
Operating transfers in	-	42,600	500	64,900
Operating transfers out	(42,600)	-	-	-
Total other financing sources (uses)	(42,600)	42,600	500	64,900
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	85,334	61,010	1,687	(3,243)
Fund Balances - July 1, 2002	360,445	74,848	544	-
Fund Balances (Deficit) - June 30, 2003	<u>\$ 445,779</u>	<u>\$ 135,858</u>	<u>\$ 2,231</u>	<u>\$ (3,243)</u>

Special Revenue Funds
Combining Statement of Revenue,
Expenditures, and Changes in Fund Balances (Deficit)
Year Ended June 30, 2003

Garbage Collection Fund	Carillon Fund	Police Department Community Events Fund	Building Fund	Total
\$ 121,744	\$ -	\$ -	\$ -	\$ 121,744
-	-	-	47,746	47,746
-	-	-	-	244,433
-	-	-	707	5,046
174	2,817	1,358	323	6,856
121,918	2,817	1,358	48,776	425,825
-	-	-	-	42,326
-	-	-	-	17,151
-	-	-	-	18,351
-	-	-	-	24,600
117,500	-	-	-	117,664
-	-	-	-	68,976
-	1,046	-	-	1,046
-	-	-	134,723	134,723
117,500	1,046	-	134,723	424,837
4,418	1,771	1,358	(85,947)	988
-	-	-	45,430	153,430
-	-	-	-	(42,600)
-	-	-	45,430	110,830
4,418	1,771	1,358	(40,517)	111,818
-	-	-	38,390	474,227
<u>\$ 4,418</u>	<u>\$ 1,771</u>	<u>\$ 1,358</u>	<u>\$ (2,127)</u>	<u>\$ 586,045</u>

City of Keego Harbor, Michigan

Special Revenue Funds

Major Streets Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
State sources	\$ 90,000	\$ 170,400	\$ 80,400
Interest	4,000	3,330	(670)
Total revenue	94,000	173,730	79,730
Expenditures			
Winter maintenance	9,800	20,214	(10,414)
Routine maintenance	16,890	6,269	10,621
Equipment rentals	-	2,215	(2,215)
Administrative fees	-	17,098	(17,098)
Operating transfers out	31,500	42,600	(11,100)
Total expenditures	58,190	88,396	(30,206)
Excess of Revenue Over Expenditures	35,810	85,334	49,524
Fund Balance - July 1, 2002	360,445	360,445	-
Fund Balance - June 30, 2003	<u>\$ 396,255</u>	<u>\$ 445,779</u>	<u>\$ 49,524</u>

City of Keego Harbor, Michigan

Special Revenue Funds

Local Streets Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
State sources	\$ 38,000	\$ 74,033	\$ 36,033
Operating transfers in	22,500	42,600	20,100
Interest	2,000	1,009	(991)
	<u>62,500</u>	<u>117,642</u>	<u>55,142</u>
Expenditures			
Winter maintenance	26,290	22,112	4,178
Routine maintenance	32,410	10,882	21,528
Equipment rentals	-	16,136	(16,136)
Administrative fees	-	7,502	(7,502)
Operating transfers	3,800	-	3,800
	<u>62,500</u>	<u>56,632</u>	<u>5,868</u>
Excess of Revenue Over Expenditures	-	61,010	61,010
Fund Balance - July 1, 2002	<u>74,848</u>	<u>74,848</u>	<u>-</u>
Fund Balance - June 30, 2003	<u><u>\$ 74,848</u></u>	<u><u>\$ 135,858</u></u>	<u><u>\$ 61,010</u></u>

City of Keego Harbor, Michigan

Special Revenue Funds Beautification Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Operating transfers in	\$ 500	\$ 500	\$ -
Interest	50	-	(50)
Other	<u>100</u>	<u>1,351</u>	<u>1,251</u>
Total revenue	650	1,851	1,201
Expenditures - Public works	<u>500</u>	<u>164</u>	<u>336</u>
Excess of Revenue Over Expenditures	150	1,687	1,537
Fund Balance - July 1, 2002	<u>544</u>	<u>544</u>	<u>-</u>
Fund Balance - June 30, 2003	<u><u>\$ 694</u></u>	<u><u>\$ 2,231</u></u>	<u><u>\$ 1,537</u></u>

City of Keego Harbor, Michigan

Special Revenue Funds

Parks and Recreation Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Operating transfers in	\$ 65,680	\$ 64,900	\$ (780)
Interest	500	-	(500)
Other	1,000	833	(167)
	<u>67,180</u>	<u>65,733</u>	<u>(1,447)</u>
Total revenue	67,180	65,733	(1,447)
Expenditures - Parks and recreation	<u>63,080</u>	<u>68,976</u>	<u>(5,896)</u>
Excess of Revenue Over (Under)			
Expenditures	4,100	(3,243)	(7,343)
Fund Balance - July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit) - June 30, 2003	<u><u>\$ 4,100</u></u>	<u><u>\$ (3,243)</u></u>	<u><u>\$ (7,343)</u></u>

City of Keego Harbor, Michigan

Special Revenue Funds

Garbage Collection Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Refuse collection	\$ 117,110	\$ 121,744	\$ 4,634
Interest	500	-	(500)
Other	500	174	(326)
	<u>118,110</u>	<u>121,918</u>	<u>3,808</u>
Expenditures - Public works	<u>117,540</u>	<u>117,500</u>	<u>40</u>
Excess of Revenue Over Expenditures	570	4,418	3,848
Fund Balance - July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2003	<u><u>\$ 570</u></u>	<u><u>\$ 4,418</u></u>	<u><u>\$ 3,848</u></u>

City of Keego Harbor, Michigan

Special Revenue Funds Building Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual Year Ended June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Licenses and permits	\$ 54,900	\$ 47,746	\$ (7,154)
Operating transfers in	61,460	45,430	(16,030)
Interest	1,900	707	(1,193)
Other	<u>-</u>	<u>323</u>	<u>323</u>
Total revenue	118,260	94,206	(24,054)
Expenditures			
Building activities	135,760	134,723	1,037
Operating transfers out	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total expenditures	<u>138,260</u>	<u>134,723</u>	<u>3,537</u>
Excess of Expenditures Over Revenue	(20,000)	(40,517)	(20,517)
Fund Balance - July 1, 2002	<u>38,390</u>	<u>38,390</u>	<u>-</u>
Fund Balance (Deficit) - June 30, 2003	<u><u>\$ 18,390</u></u>	<u><u>\$ (2,127)</u></u>	<u><u>\$ (20,517)</u></u>

City of Keego Harbor, Michigan

Capital Projects Funds Combining Balance Sheet June 30, 2003

	TIFA Fund	Capital Projects Fund	Cass Lake Road Streetscape Fund	Cass Lake Road Project Fund	Total
Assets					
Investments	\$ 812,618	\$ 573,252	\$ -	\$ -	\$ 1,385,870
Taxes receivable	13,828	-	-	-	13,828
Due from other funds	6,045	-	-	-	6,045
Total assets	<u>\$ 832,491</u>	<u>\$ 573,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,405,743</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 2	\$ -	\$ 1,483	\$ -	\$ 1,485
Due to other funds	-	-	12,593	15,591	28,184
Deferred revenue	13,828	-	-	-	13,828
Total liabilities	13,830	-	14,076	15,591	43,497
Fund Balances (Deficit) - Undesignated	<u>818,661</u>	<u>573,252</u>	<u>(14,076)</u>	<u>(15,591)</u>	<u>1,362,246</u>
Total liabilities and fund balances	<u>\$ 832,491</u>	<u>\$ 573,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,405,743</u>

City of Keego Harbor, Michigan

Capital Projects Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2003

	TIFA Fund	Capital Projects Fund	Cass Lake Road Streetscape Fund	Cass Lake Road Project Fund	Total
Revenue					
Property taxes	\$ 122,737	\$ -	\$ -	\$ -	\$ 122,737
Interest	15,969	5,777	-	-	21,746
Other	4,291	-	4,666	-	8,957
Total revenue	142,997	5,777	4,666	-	153,440
Expenditures - Construction	1,300	-	64,914	30,425	96,639
Excess of Revenue Over (Under) Expenditures	141,697	5,777	(60,248)	(30,425)	56,801
Other Financing Sources (Uses)					
Operating transfers in	-	-	46,172	14,834	61,006
Operating transfers out	(14,834)	(46,172)	-	-	(61,006)
Total other financing sources (uses)	(14,834)	(46,172)	46,172	14,834	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	126,863	(40,395)	(14,076)	(15,591)	56,801
Fund Balances - July 1, 2002	691,798	613,647	-	-	1,305,445
Fund Balances (Deficit) - June 30, 2003	<u>\$ 818,661</u>	<u>\$ 573,252</u>	<u>\$ (14,076)</u>	<u>\$ (15,591)</u>	<u>\$ 1,362,246</u>

City of Keego Harbor, Michigan

Schedule of Bonded Indebtedness June 30, 2003

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2003	2002

General Obligation Bond

Tri-City Fire Station

Date of issue - October 1, 1996

Amount of issue - \$460,000

5.05	10/02	\$ 30,000	\$ -	\$ 30,000
5.10	10/03	30,000	30,000	30,000
5.20	10/04	30,000	30,000	30,000
5.25	10/05-10/06	40,000	80,000	80,000
5.25	10/07	45,000	45,000	45,000
5.25	10/08	50,000	50,000	50,000
5.25	10/09	55,000	55,000	55,000
Total			<u>\$ 290,000</u>	<u>\$ 320,000</u>